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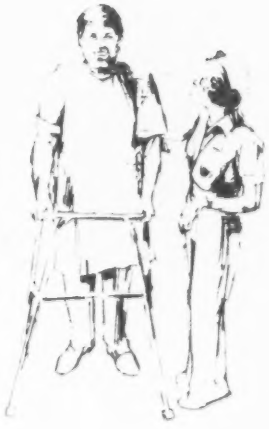
ANNUAL REPORT

FISCAL 1987



DIVISION OF WORKERS' COMPENSATION

DEPARTMENT OF LABOR & INDUSTRY

DIVISION OF WORKERS' COMPENSATION

TED SCHWINDEN, GOVERNOR

MARGARET "PEG" CONDON BLDG.
5 SO. LAST CHANCE GULCH

STATE OF MONTANA

HELENA, MONTANA 59601

March 23, 1988

Governor Ted Schwinden
GOVERNOR'S OFFICE
State Capitol Building
Helena, MT 59620

Dear Governor Schwinden:

As required by Section 39-71-210, MCA, I am transmitting the "Annual Report" of the Division of Workers' Compensation for the year ending June 30, 1987.

Unlike previous annual reports, this year's report is presented in three sections. Section I describes the activity in Fiscal 1987 which affected the entire workers' compensation system. Section II presents the State Compensation Insurance Fund, and Section III summarizes both Division administrative and financial activity.

Recommendations for system improvements will be submitted separately.

Sincerely yours,

ROBERT J. ROBINSON
Administrator

enclosure

Division Telephones:

Administration 406-444-6518

Insurance Compliance 406-444-6530

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SECTION I
THE WORKERS' COMPENSATION SYSTEM

Reform Legislation

Montana's workers' compensation system underwent dramatic changes as a result of legislation passed by the Fiftieth Legislature. For the first time, the Montana Workers' Compensation Act now includes a statement of public policy giving policy direction to the system. It states the system should replace lost wages for injured workers, provide medical treatment, rehabilitation, and training—all through a self-administering system which minimizes the necessity for litigation: "Wage-loss benefits are not intended to make an injured worker whole; they are intended to assist a worker at a reasonable cost to the employer." The policy also states the Act must be construed according to its terms and not liberally in favor of any party.

The Administration's bill, Senate Bill 315, completely rewrote the Workers' Compensation Act and had a projected cost savings of 21-23%. After the bill was amended in a few areas, it received broad legislative support in both houses. Forty-three other bills affecting the workers' compensation system were introduced; twenty-three ultimately passed.

In general, the reform changed the manner in which benefits would be paid rather than changing the benefits themselves. Wage loss compensation under the new Act continues to pay 2/3 of the wages received at the time of injury up to a maximum of the state's average weekly wage. However, the maximum rate was frozen at $299 until July 1, 1989. The Act established a waiting period so that a worker receives wage-loss compensation from the seventh day of wage loss with no retroactive provision. Partial disability payments, which are paid after a worker reaches maximum healing, are available for a 500-week period regardless of the severity of the injury as long as wage loss results from the injury. Previously an arbitrary schedule limited benefits based upon the part of a body injured. Indemnity awards for the potential loss of future earnings were eliminated.

Medical panels were established to evaluate workers' disabilities and issue impairment ratings. Workers who suffered total disabilities were provided a limited cost-of-living allowance for the first time. Lump sum payments were severely restricted. Medical benefits remained the same, but the Division was given new authority to regulate hospital costs. Benefits for a surviving spouse were limited to ten years rather than lifetime and cease upon remarriage. The two-year dowry payment upon remarriage was eliminated.

The entire rehabilitation process was rewritten, emphasizing "return to work" as the first priority. Vocational rehabilitation services are still available but are determined by the worker's remaining skills and abilities as well as the job market.

Provisions are made for parties found guilty of fraudulently obtaining benefits from the system. Conviction may result in a $50,000 fine and/or ten-year prison sentence. The same penalties were established for employers that fail to provide the mandatory insurance.

Claimants are given the advantage of a two-year return to work preference over other applicants for comparable jobs with the same employer. The employer may not fire a worker for filing a claim, and an employee may lose benefits if the sole cause of the injury can be attributed to drug or alcohol abuse unless the employer knew about it and did nothing to prevent the abuse.

Coverage provisions were amended to exempt real estate salesmen or brokers, direct sellers of products used primarily in the home, and under certain circumstances, news carriers and free-lance correspondents.

The circumstances under which a party can be considered an independent contractor were clarified. Security deposit requirements for private carriers were advanced from a minimum of $5,000 to $25,000 and a maximum of $100,000 to $200,000. The Division's authority to require security deposits of self insurers was enhanced by specifying the type and amount of guarantee to be provided.

Other changes included definition modifications of "injury" and "accident"; changes in the definitions of "wages" and "benefits"; modification of attorney fee regulations; dispute resolution first through a mediation process prior to a hearing before the Workers' Compensation Court; financial incentives for employers who institute formal safety programs; and changing the time a worker has to notify the employer of an injury from 60 days to 30 days.

Activity Summary

The Workers' Compensation and Occupational Disease Acts allow employers to obtain coverage in one of three ways. With Division approval, certain large employers or employer groups which meet statutory and administrative requirements may self insure, Plan I. Coverage also may be secured from a private carrier licensed to write in Montana, Plan II, or from the state-operated insurance program, Plan III, known as the State Compensation Insurance Fund. Information given in the following table displays a summary of the activity for each plan during the last three years.

	1984-85	1985-86	1986-87
Plan I - Self Insurance			
Number of employers enrolled	48	54	47
*Gross annual payroll	$414,540,390	$522,691,098	$550,971,920
Number of work injuries reported	2,968	3,267	3,359
Number of claims filed	640	541	605
Compensation benefits paid	$6,857,536	$6,666,015	$8,497,958
Medical & burial benefits paid	$2,521,471	$3,020,366	$3,783,168
Uninsured employers assessments	$5,000	$0	$2,000
Plan II - Private Carriers			
Number of employers enrolled	8,874	8,470	9,065
*Annual premium	$45,416,912	$52,120,000	$41,261,762
Number of work injuries reported	12,717	8,775	5,596
Number of claims filed	2,488	1,904	1,304
Compensation benefits paid	$26,970,999	$35,382,131	$34,311,089
Medical & burial benefits paid	$13,171,048	$12,515,194	$11,201,664
Uninsured employers assessments	$12,000	$9,000	$7,000
Plan III - State Fund			
Number of employers enrolled	24,254	25,665	26,950
Annual premium	$49,292,000	$50,861,306	$70,161,068
Number of work injuries reported	15,558	16,537	16,105
Number of claims filed	3,222	3,364	3,660
Compensation benefits paid	$38,034,472	$43,866,927	$54,036,180
Medical & burial benefits paid	$14,085,173	$20,472,172	$25,513,859
Uninsured employers assessments	$29,000	$21,000	$18,000

*Figures shown on calendar year basis

Work Injuries

The Division collects a variety of statistics concerning the nature and cause of industrial injuries. It uses a standardized system adopted by the Bureau of Labor Statistics to code accident data provided on reports submitted by employers and injured workers. Tables presented here represent accidents reported for the fiscal year ending June 30, 1987. The distribution of actual occurrences by category for the fourth quarter was not available at the time of publication. The allocation by accident type is imputed.The total number of accidents is the actual number of occurrences and is not estimated. In addition to the number of accidents reported, the reader is provided with information on the nature of injury, part of body affected, accident type, source, industry group involved, and age and sex of injured persons.

PART OF BODY AFFECTED

Description	Number	Percent
Head, face and neck	1,217	4.9
Eyes	2,092	8.3
Body systems	347	1.4
Trunk	2,502	10.0
Back and spine	5,119	20.4
Arms and wrists	1,948	7.8
Hands and fingers	4,667	18.6
Upper extremities	212	.8
Legs and ankles	2,816	11.3
Feet and toes	983	3.9
Lower extremities	57	.2
Body multiple	615	2.5
Not classified	2,485	9.9
TOTAL	25,060	100.0

ACCIDENT TYPE

Description	Number	Percent
Struck by object	8,175	32.6
Caught in, on, or between	1,009	4.0
Slips and falls	2,733	10.9
Motor vehicle	409	1.6
Strain or over exertion	6,833	27.3
Temperature extremes	450	1.8
Electrical current	32	.1
Inhalation	659	2.6
Rubbed or abraded	1,256	5.0
Combinations	229	.9
Not classified	3,275	13.2
TOTAL	25,060	100.0

INDUSTRY GROUP

Description	Number	Percent	Employment (thousands)*
Agriculture	1,588	6.3	32.9
Mining	567	2.3	5.1
Construction	2,443	9.7	6.7
Manufacturing	4,045	16.1	19.8
Transportation and public utilities	1,750	7.0	16.1
Wholesale trade	1,645	6.7	14.6
Retail trade	4,390	17.5	54.8
Finance, insurance, real estate	204	.8	13.0
Services	6,219	24.8	59.6
Government: State, Local & Federal	1,996	8.0	63.1
Not classified	213	.8	
TOTAL	25,060	100.0	

*Montana Employment & Wages, First Quarter 1987

SOURCE OF INJURY

Description	Number	Percent
Animals	1,554	6.2
Atmosphere	43	.2
Body motion	1,860	7.4
Boilers	59	.2
Boxes and barrels	2,006	8.0
Buildings	563	2.3
Chemicals	644	2.6
Conveyors	47	.2
Dirt Masses	215	.9
Electrical apparatus	331	1.3
Flame and smoke	143	.6
Food	232	.9
Furniture	712	2.8
Glass	345	1.4
Hand tools	2,476	9.9
Hoisting apparatus	161	.6
Ladders	52	.2
Machines	828	3.3
Mechanical transmission	102	.4
Metal items	2,427	9.7
Particles	727	2.9
Textile	227	.9
Trees	1,606	6.4
Vehicles	1,770	7.1
Working surfaces	2,563	10.2
Miscellaneous	184	.7
Not classified	3,183	12.7
TOTAL	25,060	100.0

AGE AND SEX OF INJURED PERSONS

Age Group	Male	Female	Both
Below 15	10	1	11
15-19	830	349	1,179
20-24	2,367	859	3,226
25-29	3,037	965	4,002
30-34	2,887	919	3,806
35-39	2,097	803	2,900
40-44	1,401	582	1,983
45-49	1,008	442	1,450
50-54	801	384	1,185
55-59	663	285	948
60-64	387	158	545
65-69	78	38	116
70-74	21	8	29
Over 75	13	3	16
Not Classified by Age	1,165	302	1,467
Sex Unknown	---	--	2,197
TOTAL	16,765	6,098	25,060

NATURE OF INJURY

Description	Number	Percent
Burns	893	3.6
Open wounds	6,675	26.6
Strains	8,762	34.9
Fractures	1,604	6.4
Diseases	241	1.0
Bruises	2,276	9.1
Multiple	42	.2
Other	289	1.2
Not classified	4,278	17.0
TOTAL	25,060	100.0

ACCIDENT TRENDS

The number of accidents reported compared to the civilian labor force continues to decline. During the ten years between 1977 and 1986, the percentage peaked at 9.3% in 1979 and reached an all-time low of 6.6% in 1986.

Calendar Year	Civilian Labor Force in Montana	Percentage Having Accidents
1977	348,000	9.2%
1978	368,000	9.0
1979	371,000	9.3
1980	371,000	9.2
1981	385,000	8.6
1982	394,000	7.8
1983	395,000	7.7
1984	404,000	7.7
1985	405,000	7.4
1986	407,000	6.6

Lost time injuries as a percent of reported accidents declined significantly from 31.5% in 1986, to 26.8% in 1987. During prior reporting periods, the percentage hit a high of 30.7% in 1977 and a low of 27.9% in 1982. The 1987 figures show a 12.3% decline in the number of accidents reported and a 25.4% decline in lost time injuries from the prior year.

Fiscal Year Ending	Reported Accidents	Lost Time Injuries	Percentage Total
1978	32,060	9,668	30.1
1979	34,295	10,185	29.7
1980	34,736	10,306	29.7
1981	33,888	10,127	29.9
1982	31,953	8,903	27.9
1983	29,717	8,709	29.3
1984	31,343	9,597	30.6
1985	31,243	9,533	30.5
1986	28,579	9,013	31.5
1987	25,060	6,721	26.8

INJURY AFFECT ON WORK ATTENDANCE

The table presented here attempts to display how industrial injuries are affected by a worker's ability to return to the next scheduled work shift following an accident. Cases where there was a medical cost involved but the worker made the next scheduled work shift are categorized as "no lost time injuries". Cases where a minimal medical cost was initially reported and the worker lost no scheduled time are reported as minor injuries and not recordable by OSHA standards. If a determination could not be made as to medical cost or lost time, the injury was reported in the "unknown" category.

Fiscal Year Ending	Total Injuries	Lost Time Injuries	No Lost Time Injuries	Minor Injuries	Unknown
1978	32,060	9,668	2,172	16,965	3,205
1979	34,295	10,185	2,106	17,923	4,133
1980	34,736	10,306	2,297	18,258	3,838
1981	33,888	10,127	2,155	18,453	3,108
1982	31,953	8,903	1,253	18,099	3,654
1983	29,717	8,709	3,507	12,646	4,810
1984	31,343	9,597	4,514	6,682	10,502
1985	31,243	9,533	4,171	5,737	11,762
1986	28,579	9,013	4,827	7,621	7,098
1987	25,060	6,721	2,105	8,622	7,577

FATALITIES

The tables presented here provide information on industrial-related fatalities by type of insurer during the 1987 fiscal period and the number occurring during the past ten fiscal years.

INDUSTRY	PLAN I	PLAN II	PLAN III	TOTAL
AGRICULTURE				
Horse fell on rider			2	2
MINING				
Vehicle accident			1	1
Caught by loader			1	1
TRADE				
Fall from ladder			1	1
Murdered			3	3
Vehicle accident			1	1
Brain damage			1	1
CONSTRUCTION				
Vehicle accident		3		3
Struck by tree			1	1
Electrocution			1	1
Fall to ground			2	2
MANUFACTURING				
Fell against crane	1			1
Crushed by skidder		1		1
Caught in machine			1	1
Struck by tree			2	2
TRANSPORTATION				
Aircraft accident		1	2	3
Buried under sawdust			1	1
Vehicle accident	1		1	2
PUBLIC ADMINISTRATION				
Vehicle accident			1	1
FINANCE, INSURANCE, AND REAL ESTATE				
Vehicle accident		1		1
SERVICES				
Fall to floor			1	1
Airplane crash	1		1	2
Fall from train		1		1
Murdered		1	1	2
TOTALS	3	8	25	36

FATALITIES BY FISCAL YEAR

Year	Number
1978	50
1979	38
1980	37
1981	45
1982	44
1983	45
1984	48
1985	40
1986	20
1987	36

SURVEY RESULTS

An annual Occupational Safety and Health Survey is conducted by the Division in cooperation with the Bureau of Labor Statistics of the U.S. Department of Labor. Reported data are based on employer-maintained records. The results of the survey are used in measuring and evaluating the effectiveness of the Occupational Safety and Health Act in reducing work-related injuries and illnesses. Survey results are also used as a tool to direct education and inspection activity to industries which have the greatest need for safety improvement programs.

The survey, conducted on a calendar-year basis, included employers of all private industries except self-employed individuals and agricultural firms employing ten or less employees. Federal, state and local governments are not included. Since results of the 1985 survey were not available when this report was published last year, they are included here.

Usable responses for 1985 were 91.1% of questionnaires mailed and 88.5% for 1986. Three thousand two hundred forty-four of the 1985 responses were found usable, and 3,186 of the 1986.

INJURY AND ILLNESS INCIDENCE RATES

Industry	Total Cases		Lost Workday Cases		Lost Workdays		No Lost Workday Cases	
	1985	1986	1985	1986	1985	1986	1985	1986
All Industries*	8.0	8.2	3.3	3.4	69.1	61.6	4.6	4.8
Agriculture, Forestry and Fishing**	15.4	12.9	5.8	5.3	106.1	83.4	9.6	7.6
Mining	8.5	6.3	4.5	3.6	111.2	75.8	3.9	2.7
Construction	17.3	17.4	7.2	6.1	143.5	113.3	9.9	11.3
Transportation and Public Utilities	7.5	7.4	3.5	3.2	72.4	75.5	4.0	4.1
Communication	4.9	2.2	1.1	.9	23.5	4.7	3.8	1.4
Electric, Gas & Sanitary Services	5.9	6.8	2.8	3.3	44.1	32.5	3.1	3.5
Wholesale and Retail Trade	6.2	6.3	2.2	2.3	42.4	37.7	4.0	4.0
Wholesale Trade	7.2	7.6	2.7	3.5	45.9	62.8	4.5	4.1
Retail Trade	5.9	5.8	2.1	1.9	41.1	29.0	3.8	3.9
Finance, Insurance, and Real Estate	1.4	1.1	.5	.4	19.0	6.1	.9	.7
Services	6.3	6.9	2.6	2.7	51.8	45.1	3.8	4.1

* Private sector
** Does not include agriculture with ten or fewer employees

Incidence rates were calculated as follows: N/EH x 200,000 where
N = number of illnesses and injuries or lost workdays
EH = total hours worked by all employees during the calendar year
200,000 = base for 100 full-time equivalent workers (50 weeks x 40 hours)

Uninsured Employers' Fund

Because sources of revenue have been inadequate to meet benefit requirements of the Act, the Division has been unable to pay wage compensation or medical benefits since January of 1981. However, Senate Bill 315 provided amendments to the Act which will allow benefits to be paid as cash becomes available. Under the provisions of the amended Act, wage compensation benefits are paid first and then, if funds are available, medical benefits. The amendments eliminated the provisions for lump sum payments and the requirements to establish reserves on injury claims.

Additional legislation was passed which extended the penalty provisions on uninsured employers. It designated and established provisions for employer misconduct by specifying that employers who fail to provide coverage, falsify employment records, or refuse to pay workers' compensation premiums are subject to criminal penalties of up to $50,000 and/or ten years in prison.

Rules were put in place effective July 1, 1987, which established the details of how benefit payments would be distributed given limited funding. Division personnel continued an aggressive effort to investigate possible violations.

STATISTICAL ACTIVITY

	FY 1986	FY 1987
Number of Compensation Claims Paid	0	0
Number of Investigations Made	1,021	1,203
Number of Audits Performed	21	40
Number of Employers Fined	458	239
Number of Accounts Referred for Collection	228	160
Amount of Billed Fines & Assessments Collected	$307,663	$140,089

FINANCIAL ACTIVITY

	FY 1986		FY 1987	
	Amount	Percent	Amount	Percent
Revenue Sources:				
Fines & Penalties Billed	$488,496	78.1%	$365,073	79.1%
Fatality Assessments	33,000	5.3	32,000	6.9
Bad Debts Recovered	47,640	7.6	*	0.0
Penalties & Interest	-0-	0.0	914	2
Interest Earnings	56,311	9.0	63,810	13.8
TOTAL REVENUE	$625,447	100.0%	$461,797	100.0%
Program Costs:				
Amount Referred for Collection	$240,346	74.1%	$ *	0.0%
Administrative Expense	84,198	25.9	91,149	100.0
TOTAL COSTS	$324,544	100.0%	$ 91,149	100.0%

*Change in accounting method.

SECTION II
STATE COMPENSATION INSURANCE FUND (SCIF)

Policyholder Services

SCIF insured 26,950 employers as of June, 1987, an increase of 1,285 over the previous year. Certain policyholders can now satisfy initial deposit requirements by purchasing a surety bond or arranging to pay premium in advance.

Rate increases of 10.5% and 17%, effective July 1, 1986, and January 1, 1987, respectively, were necessary to keep pace with increased claim costs and recover a portion of the unfunded liability. Earned premium increased $19.3 million over fiscal year 1986.

The 1987 Legislature enacted several pieces of legislation affecting Montana employers. Starting July 1, 1987, all employers must pay a 0.3% payroll tax to help reduce the unfunded liability. Insurers are allowed to offer an up-front discount to policyholders who implement an approved safety program. SCIF policyholders must pay a minimum premium to help defray the cost of administration, similar to employers insured by private carriers.

Claims Management

Compensation and medical benefit payments continued to increase during the fiscal year. Compensation payments increased to $54,036,180, or 23%; and medical benefit payments increased to $25,513,860, or 25%. The claims workload continued to increase. As of June 30, 1987, there were over 525 open claims per examiner.

Claims units were reorganized into four sections allowing each to accommodate the new medical pay system. SCIF contracted on a bid basis with three private rehabilitation firms to provide services to injured workers. The contracts will assist in implementing the new reform legislation and allow SCIF to better control the costs of rehabilitation. A contract with Health Care Systems was implemented to monitor the medical care of orthopedic injuries.

During the next year, SCIF will implement a legialative change which allows staffing to be based on workload. Plans are also underway to implement an automated medical pay system, a new compensation payment system, and an early contact program to better serve injured workers.

Administration

SCIF provided information to the Workers' Compensation Advisory Council, Division administration, and the Legislature on reform legislation. SCIF underwent a legislative audit, which gave a favorable report on claims processing and management. A request to review the telephone system by the Telecommunications Bureau was completed, and improvement to the system was implemented by upgrading and changing equipment and hiring additional staff to facilitate the routing of calls.

As projected by the actuary during the 1987 Legislative Session, and later confirmed, the unfunded liability increased from $81,021,967 in fiscal year 1986 to $149,168,488 as of June 30th. The negative fund balance cannot be attributed to any one factor. Imprecise and vague law calling for judicial interpretations, system abuse, and current economic conditions all contributed to an over-burdened fund. Rates implemented July 1, 1986, included a factor to help resolve the unfunded liability problem over a ten-year period. In addition, the Legislature enacted a four-year payroll tax on all employers estimated to generate $12,000,000 annually. During fiscal year 1988, management will concentrate its efforts on improving services to injured workers, policyholders, and service providers.

STATE COMPENSATION INSURANCE FUND
BALANCE SHEET
JUNE 30, 1987

ASSETS

Cash in Treasury			$ 1,576,799
Premium Receivable			18,599,465
Interest Receivable			934,979
Notes Receivable			149,129
Adjusted Accounts Receivable			44,282
Property Held in Trust			7,350,345
Investments:			
Mortgages	$ 171,868		
Federal Securities	4,897,518		
Corporate Bonds	29,686,834		
Securities on Loan	2,617,258	$ 37,373,478	
Plus: Unamortized Premiums	$ 13,817		
Interest Purchased	29,501	43,318	
Less: Unaccumulated Bond Discounts		(3,683,410)	
Net Investments			33,733,386
TOTAL ASSETS			$ 62,388,385

LIABILITIES, RESERVES AND FUND BALANCE

LIABILITIES			
Adjusted Accounts Payable		$ 775,816	
Advance Deposits		14,179,979	
Deferred Revenue		2,440	$ 14,958,235
CLAIMS RESERVES			
Compensation Benefits		$ 149,494,290	
Medical Benefits		46,429,348	
Medical Only Benefits		675,000	196,598,638
FUND BALANCE:			
Unrestricted:			
Fund Balance Designated		$ (6,464,400)	
Fund Balance Undesignated		(142,704,088)	(149,168,488)
TOTAL LIABILITIES, RESERVES AND FUND BALANCE			$ 62,388,385

STATE COMPENSATION INSURANCE FUND
STATEMENT OF OPERATIONS AND CHANGES IN RESERVES
FOR FISCAL YEAR ENDED JUNE 30, 1987

INCOME

Earned Premium		$ 70,161,068
Interest Earnings on Investments		6,257,711
Other Income		525,333
Total Current Year's Income		$ 76,944,112
Prior Year's Adjustments, Net		(811,589)
Total Income		$ 76,132,523

EXPENSES

Claims Expenses:		
Compensation Benefits	$ 54,036,180	
Medical Benefits	25,513,860	
Total Claims Expenses	$ 79,550,040	
Other Expenses:		
Administrative Assessment	$ 5,725,000	
Rehabilitation Assessment	435,248	
Structured Settlements - Interest	28,694	
Miscellaneous Expenses	59,479	
Total Other Expenses	$ 6,248,421	
Total Expenses		$ 85,798,461
RESULTS OF OPERATIONS BEFORE CHANGES IN RESERVES		$ (9,665,938)
Less: Changes in Reserves:		
Compensation Benefits	$ 46,141,810	
Medical Benefits	12,288,773	
Medical Only Benefits	50,000	58,480,583
RESULTS OF OPERATIONS AFTER CHANGES IN RESERVES		$ (68,146,521)
Prior Year Negative Surplus		(81,021,967)
NEGATIVE SURPLUS		$ (149,168,488)

C & B CONSULTING GROUP

COATES, HERFURTH & ENGLAND, INC.

November 23, 1987

Workers' Compensation Division
Department of Labor and Industry
State of Montana
P. O. Box 4759
Helena, Montana 59604-4759

Ladies and Gentlemen:

We have examined the methods and procedures utilized by the Workers' Compensation Division of the Department of Labor and Industry of the State of Montana in the determination of its liabilities for compensation, hospital, medical and other benefits as of the close of its fiscal year ended June 30, 1987, under Compensation Plan Number Three, as set forth in the Workers' Compensation Act. Our examination included a determination of the appropriateness of the underlying methods and procedures, such review of the basic records as we considered necessary in the circumstances and an analysis of the results so obtained.

The resulting liabilities for benefits to be paid, so determined, may be summarized as follows:

Compensation benefits	$149,494,290
Medical benefits	46,429,348
Medical only benefits	675,000
Total	$196,598,638

In our opinion, the above claim liabilities are based upon the benefits provided under the Workers' Compensation Act of the State of Montana. Further, in our opinion, on the basis of the information and procedures referred to above, and upon our assumption that the procedures of the Division are adequate to properly establish and maintain records required for this purpose, such liabilities in the aggregate are reasonable and appropriate as of that date. Because a negative unrestricted fund balance exists as of June 30, 1987, future premiums will need to be drawn upon to satisfy the existing liabilities of the Fund. The continuing financial soundness of the Fund is therefore conditioned upon these future premiums being realized.

By following this procedure each year and by reviewing and adjusting the rates each year to reflect changing benefits and experience, in our opinion, the Fund can continue to be maintained on a sound actuarial and financial basis.

Sincerely yours,

John P. Carberry

John P. Carberry, F.S.A.

JPC/kf

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SECTION III
THE DIVISION OF WORKERS' COMPENSATION

Responsibilities

The Division was created to administer the laws relating to industrial safety as well as statutes addressing payment of benefits to workers suffering from industrial injuries. Safety laws are found in Title 50, Chapters 1-76, Montana Codes Annotated, and the compensation systems laws are found in Title 39, Chapters 71-73.

Duties & Organization

The agency is divided into four major bureaus and two offices. Administrative Support Bureau gives overall financial and operational support to Division functions. The State Insurance Fund Bureau operates and administers a workers' compensation insurance system which permits employers one option to obtain the necessary coverage. The Insurance Compliance Bureau carries out the regulatory duties given the Division including policy compliance, rehabilitation coordination, claims review, and files management. The Safety Bureau administers laws addressing industrial and occupational safety. Executive and legal offices provide administrative and legal counsel to Division operations.

Activities

The Division was intensely involved with the reform process addressed by the 50th Legislature. Fiscal impact statements, briefing guides, testimony, and legislative assistance became the primary activity of the executive staff during the 90-day session. Once the session adjourned, action was taken to provide for implementation of the changes. Several amendments required the adoption of rules; i.e., impairment rating, dispute procedure, Uninsured Employers' Fund, benefit payments, rehabilitation panel procedures, auxiliary rehabilitation benefits, etc. Numerous forms, pamphlets, brochures, and personnel responsibilities also required revision in order to incorporate the amendments of the many reform bills. Public presentations addressing the new provisions took on the form of an awareness program. Between the time the session ended and this publication was printed, over 4,000 interested people received instruction on the changes in the Workers' Compensation & Occupational Disease Acts.

Crime Victims' Compensation

A provision of enacted House Bill 309 transferred the administration of the Crime Victims' Compensation Act to the Department of Justice, Crime Control Division. All records and personnel were delivered to that agency as of July 1, 1987. Inquiries about the program should be directed to the new administering agency.

Financial Activity

The state's accounting system presently provides ten fund types of which the Division uses five. General Fund—provides funds to cover the costs of the Social Security offset benefit program. Special Revenue Fund—accounts for income generated chiefly from assessments levied against insurers and expended for Division operations. Federal Special Revenue Fund—accommodates funds received from federal sources. Agency Fund—used to account for securities deposited with the Division by insurers to guarantee benefit payments. Expendable Trust Fund—used to account for funds where the Division is designated as custodian or agent. Statements presented on the following pages exclude the activity for the State Compensation Insurance Fund. SCIF financial reports are presented on pages 16 and 17.

BALANCE SHEET—JUNE 30, 1987

		State Special Revenue Fund		
	General Fund	Division Administration	Crime Victims' Compensation	Resource Indemnity Trust Fund Interest
ASSETS				
Cash	$	$ 283,915	$ 93,163	$
Receivables		65,570	38,000	
Supplies Inventory		50,223		
Investments				
Property Held in Trust				
Expense Advances to Employees		16,195		
Other Prepayments		78,521		45,000
TOTAL ASSETS	$ 0	$ 494,424	$ 131,163	$ 45,000
LIABILITIES				
Accounts Payable	$ 238	$ 339,350	$	$
Accrued Support Expenditures		135,957		
Contingent Liabilities			(99,437)	
Allowance for Contingent Liabilities			99,437	
Unaccumulated Bond Discounts				
Bonds Held in Trust				
Due to Consolidated Entity	(238)		(1)	45,000
FUND BALANCE		19,117	131,163	
TOTAL LIABILITIES AND FUND BALANCE	$ 0	$ 494,424	$ 131,163	$ 45,000

(1)

In order to determine operating fund balance, Allowance for Contingent Liabilities (reserves) must be deducted from this figure.

Federal Special Revenue Fund			Agency Fund	Expendable Trust Fund		
Mine Safety	OSHA Statistics	On-Site Consultation	Insurance Liquidation	Subsequent Injury	Uninsured Employers	Insurance Company Liquidated Bonds
$ 1,896	$ 1,264	$	$	$ 46,173	$ 28,029	$ 226,622
589	296	24,308		43,349	261,154	
				2,741,602	996,500	
			15,434,000			
				375		
$ 2,485	$ 1,560	$ 24,308	$ 15,434,000	$ 2,831,499	$ 1,285,683	$ 226,622
$ 2,269	$ 1,560	$ 11,680	$	$	$	$
216		12,628				
				(448,849)	(471,521)	
				448,849	471,521	
				151,491		
			15,434,000			
				(1)	(1)	(1)
				2,680,008	1,285,683	226,622
$ 2,485	$ 1,560	$ 24,308	$ 15,434,000	$ 2,831,499	$ 1,285,683	$ 226,622

STATEMENT OF CHANGES IN FUND BALANCE
FISCAL YEAR ENDED JUNE 30, 1987

		State Special Revenue Fund		
	General Fund	Division Administration	Crime Victims' Compensation	Resource Indemnity Trust Fund Interest
FUND BALANCE, JULY 1, 1986	$ 0	$ (450,798)	$ 251,537	$ 0
ADDITIONS				
Legislative Appropriations	$ 121,234	$	$	$ 580,800
Receipts:				
Licenses & Permits		32,703		
Charges for Services		1,158,108		
Fines & Forfeitures			358,758	
Federal Indirect Cost Recoveries		4,490		
Other Financing Sources		5,780,832		
Investment Earnings				
Federal Assistance				
Miscellaneous		74	11,371	
Grants, Contracts, & Donations		1,679	223	
Increase in Inventories		214		
TOTAL ADDITIONS AND FUND BALANCE	$ 121,234	$ 6,527,302	$ 621,889	$ 580,800
DEDUCTIONS				
Support Expenditures	$ 10,655	$ 6,513,623	$	$
Transfers			154,937	
Benefits	104,527		339,371	558,400
Reversions*	6,052			22,400
TOTAL DEDUCTIONS	$ 121,234	$ 6,513,623	$ 494,308	$ 580,800
PRIOR YEAR ADJUSTMENTS				
Revenue	$	$ (1,287)	$ 3,961	
Expenditures		6,700	(379)	
CURRENT YEAR ADUSTMENTS				
Residual Equity		25		
TOTAL ADJUSTMENTS	$	$ 5,438	$ 3,582	$
FUND BALANCE, JUNE 30, 1987	$ 0	$ 19,117	$ 131,163	$ 0

*Expenses pertaining to the fiscal year that were not accrued at year end may be paid from the reversions.

Federal Special Revenue Fund			Expendable Trust Fund		
Mine Safety	OSHA Statistics	On-Site Consultation	Subsequent Injury	Uninsured Employers	Insurance Company Liquidated Bonds
$ 0	$ 0	$ 0	$ 2,804,861	$ 873,523	$ 65,000
$	$	$	$	$	$
				32,000	
				365,073	161,622
			255,178	63,810	
36,919	31,516	61,316			
				914	
$ 36,919	$ 31,516	$ 61,316	$ 3,060,039	$ 1,335,320	$ 226,622
$ 36,841	$ 31,516	$ 61,469	$ 4,000	$	$
				91,149	
			376,154		
$ 36,841	$ 31,516	$ 61,469	$ 380,154	$ 91,149	$ 0
$	$	$	$ 123	$ 39,239	$
(78)		153		2,273	
$ (78)	$ 0	$ 153	123	$ 41,512	$ 0
$ 0	$ 0	$ 0	$2,680,008	$ 1,285,683	$ 226,622

PROGRAM COST STATEMENT
FISCAL YEAR ENDED JUNE 30, 1987

COSTS	Administration Program	State Fund Program	Compliance Program	Safety Program	Total
Personal Services:					
Salaries	$ 728,822	$ 1,655,126	$ 606,360	$ 528,384	$ 3,518,692
Employee Benefits	166,859	377,682	142,626	152,423	839,590
Sub-Total	$ 895,681	$ 2,032,808	$ 748,986	$ 680,807	$ 4,358,282
Operating Expenses:					
Contracted Services	$ 210,936	$ 712,383	$ 123,329	$ 13,797	$ 1,060,445
Supplies & Materials	18,603	32,664	9,627	18,908	79,802
Communications	20,523	172,740	56,543	16,323	266,129
Travel	8,742	20,804	4,170	91,600	125,316
Rent	3,246	384	0	435	4,065
Utilities	42,251	0	0	0	42,251
Repairs & Maintenance	46,949	28,103	10,559	9,417	95,028
Other Expenses	13,439	5,939	4,499	1,042	24,919
Department of Labor Assessment	80,974	402,450	0	0	483,424
Sub-Total	$ 445,663	$ 1,375,467	$ 208,727	$ 151,522	$ 2,181,379
Equipment	$ 77,128	$ 7,154	$ 15,540	$ 14,472	$ 114,294
Intangible Assets	0	150	0	0	150
Sub-Total	$ 77,128	$ 7,304	$ 15,540	$ 14,472	$ 114,444
Transfers	$ 0	$ 0	$ 154,937	$ 0	$ 154,937
Benefits	$ 0	$ 0	$ 1,002,297	$ 0	$ 1,002,297
TOTAL PROGRAM COSTS	$ 1,418,472	$ 3,415,579	$ 2,130,487	$ 846,801	$ 7,811,339
SUMMARY OF FUNDING					
General Fund	$ 0	$ 0	$ 115,182	$ 0	$ 115,182
State Special Revenue Fund	1,386,957	3,415,579	2,015,305	748,490	7,566,331
Federal Special Revenue Fund	31,515	0	0	98,311	129,826
TOTAL FUNDING	$ 1,418,472	$ 3,415,579	$ 2,130,487	$ 846,801	$ 7,811,339

COMPARATIVE STATEMENT OF REVENUE SOURCES
FISCAL YEARS ENDED JUNE 30, 1986, AND JUNE 30, 1987

	1986		1987	
Licenses and Permits:				
Engineer Licenses	$ 27,021		$ 29,471	
Explosives Licenses	2,580	$ 29,601	3,232	$ 32,703
Service Fees:				
Copies of Documents	$ 22,005		$ 44,958	
Plan I Assessments	67,968		294,816	
Plan II Assessments	379,049		1,002,276	
Jury Duty & Witness Fee	333		132	
JTPA Reimbursement	1,028		-0-	
Fatality Assessment	33,000		32,000	
Total Fees	$ 503,383		$ 1,374,182	
Less Transfers To:				
Workers' Compensation Judge	(207,000)	296,383	(184,074)	1,190,108
Investment Earnings:				
Corporate Bonds	$ 438		$ 308	
Industrial Bonds	45,856		74,268	
Railroad Equipment Trusts	25,768		19,400	
Public Utility Securities	66,608		48,125	
US Treasury Bills	-0-		9,593	
Federal Agencies	90,858		-0-	
Annual Modified Income	6,518		36,521	
Short Term Investment Pool	99,163	335,209	130,773	318,988
Fines:				
Motor Vehicle	$ 373,409		$ 358,758	
Civil Penalties	480,461	853,870	526,695	885,453
Federal Indirect Cost Recoveries		3,391		4,490
Grants, Contracts & Donations:				
OJT Reimbursement	$ -0-		$ 1,679	
Donations	-0-	-0-	223	1,902
Miscellaneous				
Penalties & Interest	$ -0-		$ 988	
Bad Debts Recovered	47,640		-0-	
Recovery	4,279		10,421	
Subrogation	29,554	81,473	950	12,359
Other Financing Sources:				
State Compensation Insurance Fund	$ 5,695,000		$5,725,000	
Crime Victims Assessments	57,077		54,937	
Uninsured Employers Assessments	84,198		91,149	
Total Other	$ 5,836,275		$ 5,871,086	
Less Transfers To:				
Workers' Compensation Judge	(109,030)	5,727,245	(90,254)	5,780,832
Federal Assistance:				
Federal Department of Labor:				
On-Site Consultation	$ 55,814		$ 61,316	
Survey Program	35,125		31,516	
Mining Education	36,415	127,354	36,919	129,751
Increase in Inventories		18,670		214
TOTAL REVENUE		$ 7,473,196		$ 8,356,800

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